

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Muskegon Charter Township	County Muskegon
Audit Date 12/31/04	Opinion Date 6/15/05	Date Accountant Report Submitted to State: 6/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

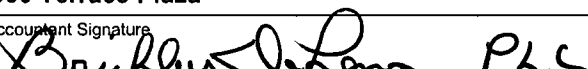
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Brickley DeLong PLC			
Street Address 500 Terrace Plaza	City Muskegon	State MI	ZIP 49443
Accountant Signature 		Date 6/29/05	

Muskegon Charter Township
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended December 31, 2004

Muskegon Charter Township

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Muskegon Charter Township
Management Discussion and Analysis
December 31, 2004

As management of Muskegon Charter Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2004. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter. To those familiar with the prior year financial statements or just new to this document, it is important to know that the Township is presenting this analysis along with these statements in a new format prescribed by the provisions of the Governmental Accounting Standards Board Statement 34 (GASB 34).

FINANCIAL HIGHLIGHTS

Assets of the Township exceeded liabilities of \$17,097,732 at the close of the fiscal year by \$25,306,112 (net assets). Of this amount, \$10,246,000 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.

Governmental activities had net assets totaling \$4,672,919 while business type activities ended the year with \$20,633,193 in total net assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components: 1) governmental-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The governmental-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Muskegon Charter Township
Management's Discussion and Analysis
December 31, 2004

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Township include general government, public safety, public works, community and economic development and cultural and recreational activities. The business-type activities of the Township include water distribution, sanitation and sewer services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories- governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

Muskegon Charter Township maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Public Safety Fund, which are considered major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Muskegon Charter Township
Management's Discussion and Analysis
December 31, 2004

Proprietary Funds. The Township has enterprise proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its water distribution, sanitation and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for the Eastside Water, Sanitation and Sewer funds, all of which are major funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund and Public Safety Fund.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplemental information on budgetary information.

Muskegon Charter Township
Management's Discussion and Analysis
December 31, 2004

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of December 31, 2004, the Township's net assets from governmental activities totaled \$4,672,919 (19%) and \$20,633,193 (81%) from business-type activities, creating a total government-wide net assets total of \$25,306,112. Since this is the first year the Township has prepared financial statements following GASB 34, comparisons to fiscal year 2003 are not available. However, these comparison schedules will be provided in future years.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a fund balance of \$1,234,586. This represents the amount of discretionary resources that can be used for general governmental operations.

The business-type activities show a total of \$20,633,193 in net assets and \$9,011,414 in unrestricted net assets. The Eastside Water Fund, Sanitation Fund and Sewer Fund unrestricted net assets are \$3,049,130, \$417,799 and \$5,544,485, respectively.

Muskegon Charter Township Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total
<u>Assets</u>			
Current assets and other assets	\$ 3,855,660	\$ 12,910,932	\$ 16,766,592
Capital assets	4,804,479	20,832,773	25,637,252
Total assets	<u>8,660,139</u>	<u>33,743,705</u>	<u>42,403,844</u>
<u>Liabilities</u>			
Current liabilities	3,029,141	5,654,470	8,683,611
Noncurrent liabilities	958,079	7,456,042	8,414,121
Total liabilities	<u>3,987,220</u>	<u>13,110,512</u>	<u>17,097,732</u>
<u>Net assets</u>			
Invested in capital assets, net of related debt	3,036,718	11,621,779	14,658,497
Restricted	401,615	-	401,615
Unrestricted	1,234,586	9,011,414	10,246,000
Total net assets	<u>\$ 4,672,919</u>	<u>\$ 20,633,193</u>	<u>\$ 25,306,112</u>

Muskegon Charter Township
Management's Discussion and Analysis
December 31, 2004

Net assets of the Township's governmental activities increased by \$187,120 (5%) during the 2004 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

At the end of the fiscal year, the net assets for business-type activities increased \$985,755 or 5%. Three funds comprise the business-type activities. The Eastside Water Fund, Sanitation Fund and Sewer Fund experienced an increase in net assets for the year of \$621,664, \$68,385 and \$295,706, respectively.

Muskegon Charter Township Change in Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total
Revenues:			
Program revenues			
Charges for services	\$ 1,189,567	\$ 2,364,175	\$ 3,553,742
Operating grants and contributions	47,140	-	47,140
Capital grants and contributions	293,404	837,603	1,131,007
General revenues			
Property taxes	2,002,838	556	2,003,394
Grants and contributions not restricted	1,656,767	-	1,656,767
Unrestricted investment earnings	37,929	109,604	147,533
Miscellaneous	119,709	-	119,709
Gain (loss) on sale of capital assets	346,666	(4,664)	342,002
Total revenues	5,694,020	3,307,274	9,001,294
Expenses:			
General government	1,292,344	-	1,292,344
Public safety	3,063,566	-	3,063,566
Public works	833,327	-	833,327
Community and economic development	20,873	-	20,873
Culture and recreation	149,383	-	149,383
Interest on long-term debt	57,323	-	57,323
Eastside Water Fund	-	936,149	936,149
Sanitation Fund	-	403,471	403,471
Sewer Fund	-	1,071,983	1,071,983
Total expenses	5,416,816	2,411,603	7,828,419
Change in net assets before transfers	277,204	895,671	1,172,875
Transfers	(90,084)	90,084	-
Change in net assets	187,120	985,755	1,172,875
Net assets – January 1, 2004	4,485,799	19,647,438	24,133,237
Net Assets – December 31, 2004	<u><u>\$ 4,672,919</u></u>	<u><u>\$ 20,633,193</u></u>	<u><u>\$ 25,306,112</u></u>

Muskegon Charter Township
Management's Discussion and Analysis
December 31, 2004

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2004 fiscal year, the governmental funds reported a combined fund balance of \$1,447,667. This number represents the fund balance of \$787,865 in the General Fund, \$63,549 in the Public Safety Fund and \$596,253 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Township's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of \$190,468 and pay debt service of \$298,455.

The General Fund is the chief operating fund of the Township. At the end of 2004, the unreserved General Fund fund balance was \$607,418 and the total General Fund fund balance was \$787,865. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 14% of the General Fund expenditures.

Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Eastside Water Fund, Sanitation Fund and Sewer Fund increased by \$621,664, \$68,385 and \$295,706, respectively. The result was an overall net increase in the proprietary funds of \$985,755.

General Fund Budget

During the current fiscal year, the Township made several amendments to its original budget. General Fund revenues were increased for a Homeland Security Fire Grant, a transfer in from the Fire Equipment Fund, sale of fixed assets, higher electrical permit revenue, and employee medical reimbursements. Increases in General Fund expenditures included general and condemnation legal expenses for contract negotiations and higher than anticipated demolition costs, township hall fixed assets for a new roof, police department equipment for new tasers, and fire department wages that were originally underbudgeted.

Muskegon Charter Township
Management's Discussion and Analysis
December 31, 2004

The following comments summarize the major variations from the final budget to actual revenues and expenditures. General Fund state revenue sharing, building permits, interest earnings, and general reimbursements were all less than budgeted. General Fund sale of fixed assets had a positive variation even though the budget was increased during the year. Wages in the assessing and police departments were down because of a vacancy in the assessor position for a few months and overly conservative budgeting, respectively. Wages were also down in the inspections department because of a temporary clerical vacancy and reduced wage and salary levels due to new personnel. Fire department wages were over budget due to hiring of new fire deputy fire chief. Sealcoating was reduced by the county to cut costs and contingent wages budgeted for were not realized.

Capital Assets Administration

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2004 totaled \$21,430,169 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, furniture, machinery, equipment, utility systems and vehicles.

Major capital asset events during the current year included the addition of a Half Pipe ramp at the Skate Park, a new roof on Township Hall, two new police vehicles, and a new file server for Township Hall. Construction in progress increased due to continuing development of P. Don Aley Industrial Park with the aid of an EDA grant. Construction in progress also increased in the business-type activities due to major expansion of both the water and sewer systems. These projects will continue into fiscal 2005 and 2006.

Muskegon Charter Township Capital Assets
(Net of Accumulated Depreciation)

	Governmental Activities 2004	Business-type Activities 2004	Total
Land	\$ 381,599	\$ 15,966	\$ 397,565
Land improvements	523,511	-	523,511
Building and improvements	1,945,668	-	1,945,668
Utility systems	-	12,778,519	12,778,519
Furniture, machinery and equipment	117,452	-	117,452
Vehicles	734,086	104,178	838,264
Construction in progress	430,507	4,398,683	4,829,190
Total	<u>\$ 4,132,823</u>	<u>\$ 17,297,346</u>	<u>\$ 21,430,169</u>

Additional information on the Township's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

Muskegon Charter Township
Management's Discussion and Analysis
December 31, 2004

Long-Term Debt

At the end of the fiscal year, the Township had total outstanding debt of \$9,063,167 consisting of general obligations bonds, special assessment debt, revenue bonds, installment purchase agreements and accumulated compensated absences. The general obligation debt of \$7,145,000 and special assessment debt of \$611,105 is backed by the full-faith and credit of the Township. Approximately \$679,027 or (8%) of the Township's outstanding debt represented in table below is recorded as revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water and sewer services in the enterprise funds.

Muskegon Charter Township Outstanding Debt

	Governmental Activities 2004	Business-type Activities 2004	Total
General obligation bonds	\$ 145,000	\$ 7,000,000	\$ 7,145,000
Special assessment bonds	611,105	-	611,105
Revenue bonds	-	679,027	679,027
Installment purchase agreements	340,000	-	340,000
Accumulated compensated absences	288,035	-	288,035
Total	<u>\$ 1,384,140</u>	<u>\$ 7,679,027</u>	<u>\$ 9,063,167</u>

The Township's total debt increased by \$6,580,010 during the fiscal year. This increase was due to the issuance of \$7,000,000 in general obligation bonds in the Eastside Water Fund, offset by normal debt payoffs as provided for in the fiscal year 2004 budget.

Additional information on the Township's long-term debt can be found in Note J of the notes to the financial statements, beginning on page 25.

General Economic Overview

The Township's General Fund has two major revenue sources - state revenue sharing and property tax revenue. Those two sources comprised over 75% of the General Fund revenue sources. In fiscal 2005, state revenue sharing is expected to continue to decline. Property tax revenues are expected to increase by 5%.

The Township has undertaken a number of measures to offset flat or declining revenues such as reducing expenditures, consideration of a hiring freeze, and changes in health care plans, subject to contract negotiations. PA 5 of 2005, an amendment to PA 51 of 1951, may allow the Township to receive a portion of road maintenance funds, now directed at the Road Commission, for road maintenance and snow plowing already being performed by the Township.

Muskegon Charter Township
Management's Discussion and Analysis
December 31, 2004

The General Fund budget decreased from FY 2003 to FY 2004 by 13%. The 2005 Budget is virtually identical to 2004. It will again be drawing down on fund balance for the 3rd year in a row. Assuming no unexpected items occur in 2005, the fund will have a fund balance of less than 10% of expenses. Savings will be realized from a postponement of hard surface road maintenance for one year, although this road maintenance will need to be resumed next year. An Administrative fee was drawn from the Eastside Water Fund for the first time in 2004 and will continue in 2005.

The Township Board and staff remain optimistic that the Township's economic stability will be further enhanced by several projects and other variables in various stages of maturity. These include the sale of lots in the new Industrial Park, continued development in the residential and commercial sectors, and movement in Lansing to stabilize revenue sharing. Two of the three bargaining groups settled contracts with the Township this year. Within each group, retirement plans were enhanced at the individual employee's cost. Health insurance plans were also modified as part of negotiations by raising employee co pays, thus reducing premiums. Neither plan went to arbitration, fact-finding, or mediation which saved the Township money on legal fees. The Sewer Fund will incur additional costs this year due to a rate increase from the Muskegon County Wastewater Treatment Plant. The service area for sewer will be expanded to the entire Township south of the Muskegon River, thereby increasing the number of users. The Industrial Park, Mill Iron, Laketon, Apple Ave. sewer and water expansion will be complete, opening the door for further growth in these areas.

Requests for Information

This financial report is designed to provide a general overview of Muskegon Charter Township's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Muskegon Charter Township, 1990 E. Apple Avenue, Muskegon, Michigan, 49442, (231) 777-2555.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

June 15, 2005

Township Board
Muskegon Charter Township
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muskegon Charter Township, Michigan as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Muskegon Charter Township, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muskegon Charter Township, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of January 1, 2004.

The management's discussion and analysis and budgetary comparison information on pages i through ix and 32 through 36 are not a required part of the basic financial statement but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

BRICKLEY DELONG

Township Board
June 15, 2005
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muskegon Charter Township, Michigan's basic financial statements. The combining nonmajor governmental funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Muskegon Charter Township
STATEMENT OF NET ASSETS
December 31, 2004

ASSETS

	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 1,185,325	\$ 7,216,309	\$ 8,401,634
Receivables	1,738,561	558,333	2,296,894
Internal balances	(127,783)	127,783	-
Due from other governmental units	869,089	-	869,089
Prepaid items	190,468	8,507	198,975
Restricted assets	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
Total current assets	3,855,660	12,910,932	16,766,592
NONCURRENT ASSETS			
Restricted assets	171,088	1,584,580	1,755,668
Capital assets, net			
Nondepreciable	812,106	4,414,649	5,226,755
Depreciable	3,320,717	12,882,697	16,203,414
Access rights, net	-	288,654	288,654
Bond issue costs, net	-	63,241	63,241
Notes and assessments receivable	<u>500,568</u>	<u>1,598,952</u>	<u>2,099,520</u>
Total noncurrent assets	4,804,479	20,832,773	25,637,252
Total assets	8,660,139	33,743,705	42,403,844
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	377,062	248,415	625,477
Due to other governmental units	-	178,757	178,757
Deferred revenue	2,202,018	-	2,202,018
Bonds, capital leases and contracts, due within one year	285,500	156,000	441,500
Bond anticipation note	-	5,000,000	5,000,000
Accrued interest, due within one year	24,000	71,298	95,298
Compensated absences, due within one year	<u>140,561</u>	<u>-</u>	<u>140,561</u>
Total current liabilities	3,029,141	5,654,470	8,683,611
NONCURRENT LIABILITIES			
Bonds, capital leases and contracts, less amounts due within one year	810,605	7,456,042	8,266,647
Compensated absences, less amounts due within one year	<u>147,474</u>	<u>-</u>	<u>147,474</u>
Total noncurrent liabilities	958,079	7,456,042	8,414,121
Total liabilities	3,987,220	13,110,512	17,097,732
NET ASSETS			
Invested in capital assets, net of related debt	3,036,718	11,621,779	14,658,497
Restricted for:			
Public safety	127,160	-	127,160
Debt service	274,455	-	274,455
Unrestricted	<u>1,234,586</u>	<u>9,011,414</u>	<u>10,246,000</u>
Total net assets	<u>\$ 4,672,919</u>	<u>\$ 20,633,193</u>	<u>\$ 25,306,112</u>

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF ACTIVITIES
For the year ended December 31, 2004

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government		Total
					Governmental activities	Business-type activities	
Governmental activities							
General government	\$ 1,292,344	\$ 538,226	\$ -	\$ -	\$ (754,118)	\$ -	\$ (754,118)
Public safety	3,063,566	432,261	47,140	35,100	(2,549,065)	-	(2,549,065)
Public works	833,327	194,799	-	258,304	(380,224)	-	(380,224)
Community and economic development	20,873	1,555	-	-	(19,318)	-	(19,318)
Culture and recreation	149,383	22,726	-	-	(126,657)	-	(126,657)
Interest on long-term debt	57,323	-	-	-	(57,323)	-	(57,323)
Total governmental activities	5,416,816	1,189,567	47,140	293,404	(3,886,705)	-	(3,886,705)
Business-type activities							
Eastside Water	936,149	910,324	-	547,421	-	521,596	521,596
Sanitation	403,471	474,649	-	-	-	71,178	71,178
Sewer	1,071,983	979,202	-	290,182	-	197,401	197,401
Total business-type activities	2,411,603	2,364,175	-	837,603	-	790,175	790,175
Total government	\$ 7,828,419	\$ 3,553,742	\$ 47,140	\$ 1,131,007	(3,886,705)	790,175	(3,096,530)
General revenues							
Taxes							
Property taxes, levied for general purposes					1,296,076	-	1,296,076
Property taxes, levied for specific purposes					706,762	556	707,318
Grants and contributions not restricted to specific programs					1,656,767	-	1,656,767
Unrestricted investment earnings					37,929	109,604	147,533
Miscellaneous					119,709	-	119,709
Gain (loss) on sale of capital asset					346,666	(4,664)	342,002
Transfers					(90,084)	90,084	-
Total general revenues, special items, and transfers					4,073,825	195,580	4,269,405
Change in net assets					187,120	985,755	1,172,875
Net assets at January 1, 2004					4,485,799	19,647,438	24,133,237
Net assets at December 31, 2004					\$ 4,672,919	\$ 20,633,193	\$ 25,306,112

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
BALANCE SHEET
Governmental Funds
December 31, 2004

	General Fund	Public Safety Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and investments	\$ 218,268	\$ 172,958	\$ 794,099	\$ 1,185,325
Receivables				
Accounts	66,086	-	-	66,086
Special assessments	-	-	573,982	573,982
Property taxes	952,611	411,739	234,711	1,599,061
Due from other funds	300,350	44,359	15,090	359,799
Due from other governmental units	593,871	-	275,218	869,089
Prepaid items	180,447	10,021	-	190,468
Restricted assets	-	-	171,088	171,088
Total assets	<u>\$ 2,311,633</u>	<u>\$ 639,077</u>	<u>\$ 2,064,188</u>	<u>\$ 5,014,898</u>
LIABILITIES AND FUND BALANCES (DEFICITS)				
Liabilities				
Accounts payable	\$ 69,332	\$ 6,930	\$ 218,400	\$ 294,662
Accrued liabilities	82,043	357	-	82,400
Due to other funds	59,449	759	427,374	487,582
Deferred revenue	<u>1,312,944</u>	<u>567,482</u>	<u>822,161</u>	<u>2,702,587</u>
Total liabilities	1,523,768	575,528	1,467,935	3,567,231
Fund balances (deficits)				
Reserved for:				
Prepaid items	180,447	10,021	-	190,468
Debt service	-	-	298,455	298,455
Capital projects	-	-	171,088	171,088
Unreserved				
Undesignated				
General fund	607,418	-	-	607,418
Special revenue funds	-	53,528	346,226	399,754
Capital projects funds	<u>-</u>	<u>-</u>	<u>(219,516)</u>	<u>(219,516)</u>
Total fund balances	<u>787,865</u>	<u>63,549</u>	<u>596,253</u>	<u>1,447,667</u>
Total liabilities and fund balances	<u>\$ 2,311,633</u>	<u>\$ 639,077</u>	<u>\$ 2,064,188</u>	<u>\$ 5,014,898</u>

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS**
 December 31, 2004

Total fund balance—governmental funds	\$	1,447,667
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 6,846,303	
Accumulated depreciation	<u>(2,713,480)</u>	4,132,823

Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds payable	(1,096,105)	
Compensated absences	<u>(288,035)</u>	(1,384,140)

Accrued interest in governmental activities is not reported in the governmental funds.		(24,000)
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Special assessment revenue is not recognized until it is receivable in the current
period and, therefore, is shown as deferred revenue in the governmental funds.

		<u>500,569</u>
Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>4,672,919</u></u>

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended December 31, 2004

	General Fund	Public Safety Fund	Other governmental funds	Total governmental funds
REVENUES				
Property taxes	\$ 1,430,859	\$ 565,611	\$ 141,151	\$ 2,137,621
Licenses and permits	378,601	-	-	378,601
Intergovernmental revenues				
Federal	35,100	-	258,304	293,404
State	1,690,725	-	-	1,690,725
Charges for services	310,610	-	293,877	604,487
Fines and forfeitures	46,659	-	-	46,659
Investment earnings	25,577	450	11,902	37,929
Other	52,226	69,552	148,650	270,428
Total revenues	3,970,357	635,613	853,884	5,459,854
EXPENDITURES				
Current				
General government	685,643	-	-	685,643
Public safety	1,849,422	448,091	-	2,297,513
Public works	369,238	-	191,395	560,633
Community and economic development	20,873	-	-	20,873
Culture and recreation	116,311	-	-	116,311
Other governmental functions	1,279,839	-	34,116	1,313,955
Debt service				
Principal	30,000	70,000	181,117	281,117
Interest and fees	8,850	10,998	42,575	62,423
Capital outlay	65,932	44,159	419,430	529,521
Total expenditures	4,426,108	573,248	868,633	5,867,989
Excess of revenues over (under) expenditures	(455,751)	62,365	(14,749)	(408,135)
OTHER FINANCING SOURCES (USES)				
Transfers in	46,000	-	25,694	71,694
Proceeds from sale of fixed assets	383,180	-	-	383,180
Transfers out	(15,000)	-	(146,778)	(161,778)
Total other financing sources (uses)	414,180	-	(121,084)	293,096
Net change in fund balances	(41,571)	62,365	(135,833)	(115,039)
Fund balances at January 1, 2004	829,436	1,184	732,086	1,562,706
Fund balances at December 31, 2004	\$ 787,865	\$ 63,549	\$ 596,253	\$ 1,447,667

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended December 31, 2004

Net change in fund balances—total governmental funds	\$	(115,039)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (305,563)	
Capital outlay	<u>529,521</u>	223,958

Proceeds from the sale of fixed assets are reported as revenues in the governmental funds; proceeds are netted against net book value in the Statement of Activities and a net resulting gain or loss is recorded.		(36,514)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		281,117
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Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		5,100
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Increases in the compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		(17,636)
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Governmental funds recognize special assessments as revenue as they become current; however, they are recognized in full when levied in the statement of net assets.		<u>(153,866)</u>
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Change in net assets of governmental activities	\$	<u><u>187,120</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF NET ASSETS
Proprietary Funds
December 31, 2004

ASSETS

	Enterprise Funds			
	Eastside Water	Sanitation	Sewer	Totals
CURRENT ASSETS				
Cash and investments	\$ 2,491,882	\$ 382,946	\$ 4,341,481	\$ 7,216,309
Receivables				
Accounts	128,365	108,928	243,662	480,955
Assessments	77,378	-	-	77,378
Due from other funds	120,990	115	894,661	1,015,766
Prepaid items	5,583	2,341	583	8,507
Restricted assets	-	-	5,000,000	5,000,000
Total current assets	<u>2,824,198</u>	<u>494,330</u>	<u>10,480,387</u>	<u>13,798,915</u>
NONCURRENT ASSETS				
Restricted assets	1,584,580	-	-	1,584,580
Capital assets, net				
Nondepreciable	3,139,159	-	1,275,490	4,414,649
Depreciable	<u>2,048,238</u>	<u>104,178</u>	<u>10,730,281</u>	<u>12,882,697</u>
Net capital assets	5,187,397	104,178	12,005,771	17,297,346
Access rights, net of accumulated amortization	-	-	288,654	288,654
Bond issuance costs, net of accumulated amortization	63,241	-	-	63,241
Notes and assessments receivable	<u>1,183,115</u>	<u>-</u>	<u>415,837</u>	<u>1,598,952</u>
Total noncurrent assets	<u>8,018,333</u>	<u>104,178</u>	<u>12,710,262</u>	<u>20,832,773</u>
Total assets	10,842,531	598,508	23,190,649	34,631,688
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	152,735	17,169	66,559	236,463
Accrued liabilities	48,848	11,952	22,450	83,250
Due to other funds	660,634	47,410	179,939	887,983
Due to other governmental units	95,966	-	82,791	178,757
Bond anticipation note	-	-	5,000,000	5,000,000
Bonds, capital leases and contracts, due within one year	<u>-</u>	<u>-</u>	<u>156,000</u>	<u>156,000</u>
Total current liabilities	958,183	76,531	5,507,739	6,542,453
NONCURRENT LIABILITIES				
Bonds, capital leases and contracts, less amounts due within one year	<u>6,933,015</u>	<u>-</u>	<u>523,027</u>	<u>7,456,042</u>
Total liabilities	<u>7,891,198</u>	<u>76,531</u>	<u>6,030,766</u>	<u>13,998,495</u>
NET ASSETS				
Invested in capital assets, net of related debt	(97,797)	104,178	11,615,398	11,621,779
Unrestricted	<u>3,049,130</u>	<u>417,799</u>	<u>5,544,485</u>	<u>9,011,414</u>
Total net assets	<u>\$ 2,951,333</u>	<u>\$ 521,977</u>	<u>\$ 17,159,883</u>	<u>\$ 20,633,193</u>

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended December 31, 2004

	Enterprise Funds			
	Eastside Water	Sanitation	Sewer	Totals
REVENUES				
Charges for services	\$ 910,324	\$ 474,649	\$ 979,202	\$ 2,364,175
OPERATING EXPENSES				
Administration	81,695	42,879	130,632	255,206
Operations	810,218	298,022	437,659	1,545,899
Depreciation and amortization	44,236	62,570	461,582	568,388
Total operating expenses	936,149	403,471	1,029,873	2,369,493
Operating income (loss)	(25,825)	71,178	(50,671)	(5,318)
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	28,868	1,871	78,865	109,604
Connection fees	547,421	-	248,015	795,436
Property taxes	-	-	556	556
Other	-	-	42,167	42,167
Interest expense	-	-	(42,110)	(42,110)
Total nonoperating revenues (expenses)	576,289	1,871	327,493	905,653
Income (loss) before transfers	550,464	73,049	276,822	900,335
Loss on sale of capital assets	-	(4,664)	-	(4,664)
Transfers in	71,200	-	18,884	90,084
Change in net assets	621,664	68,385	295,706	985,755
Total net assets at January 1, 2004	2,329,669	453,592	16,864,177	19,647,438
Total net assets at December 31, 2004	\$ 2,951,333	\$ 521,977	\$ 17,159,883	\$ 20,633,193

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended December 31, 2004

	Enterprise Funds			
	Eastside Water	Sanitation	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 861,371	\$ 455,261	\$ 938,632	\$ 2,255,264
Receipts from interfund services provided	325,481	47,295	111,993	484,769
Payments to suppliers	(735,243)	(225,566)	(784,755)	(1,745,564)
Payments to employees	(26,021)	(112,695)	(45,960)	(184,676)
Net cash provided by operating activities	425,588	164,295	219,910	809,793
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	71,200	-	18,884	90,084
Property taxes	-	-	556	556
Net cash provided by non-capital financing activities	71,200	-	19,440	90,640
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt, net of discount and issuance costs	6,867,783	-	-	6,867,783
Proceeds from bond anticipation note	-	-	5,000,000	5,000,000
Connection fees	547,421	-	260,068	807,489
Purchases of capital assets	(4,898,739)	-	(1,220,896)	(6,119,635)
Principal and interest paid on capital debt	-	-	(198,619)	(198,619)
Other receipts	-	-	42,167	42,167
Net cash provided by capital and related financing activities	2,516,465	-	3,882,720	6,399,185
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	28,868	1,871	78,865	109,604
Net increase in cash and investments	3,042,121	166,166	4,200,935	7,409,222
Cash and investments at January 1, 2004	1,034,341	216,780	5,140,546	6,391,667
Cash and investments at December 31, 2004	\$ 4,076,462	\$ 382,946	\$ 9,341,481	\$ 13,800,889
Reconciliation of cash and investments to the balance sheet				
Cash and investments	\$ 2,491,882	\$ 382,946	\$ 4,341,481	\$ 7,216,309
Restricted assets	1,584,580	-	5,000,000	6,584,580
	\$ 4,076,462	\$ 382,946	\$ 9,341,481	\$ 13,800,889
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (25,825)	\$ 71,178	\$ (50,671)	\$ (5,318)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization expense	44,236	62,570	461,582	568,388
Change in assets and liabilities				
Receivables, net	(48,953)	(19,388)	(40,570)	(108,911)
Internal balances	325,481	47,295	111,993	484,769
Prepaid items	(5,583)	(2,341)	(583)	(8,507)
Accounts and other payables	136,232	4,981	(261,841)	(120,628)
Net cash provided by operating activities	\$ 425,588	\$ 164,295	\$ 219,910	\$ 809,793

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 December 31, 2004

	<u>Trust and Agency</u>	<u>Current Tax Account</u>	<u>Payroll</u>	<u>Totals</u>
ASSETS				
Cash and investments	\$ 5,250	\$ 1,262,294	\$ 22,172	\$ 1,289,716
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES				
Accrued liabilities	\$ -	\$ -	\$ 22,172	\$ 22,172
Due to other governmental units	5,250	1,256,453	-	1,261,703
Other liabilities	<u>-</u>	<u>5,841</u>	<u>-</u>	<u>5,841</u>
Total liabilities	\$ 5,250	\$ 1,262,294	\$ 22,172	\$ 1,289,716
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of this statement.

Muskegon Charter Township
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Charter Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Effective January 1, 2004, the Township adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

Fund balances at January 1, 2004—governmental funds	\$ 1,562,706
Special assessments	654,435
Capital assets, net	3,945,379
Accrued liabilities	(29,100)
Long-term liabilities	(1,377,222)
Compensated absences	<u>(270,399)</u>
Restated net assets at January 1, 2004	<u>\$ 4,485,799</u>

1. Reporting Entity

Muskegon Charter Township (Township) is a municipal corporation governed by an elected seven-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part the government's operations.

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

1. Reporting Entity—Continued

Blended component unit

The Muskegon Charter Township Building Authority (Authority) serves all the citizens of the Township and is governed by a Board appointed by the Township's Board. The primary purpose of the Authority is to acquire and construct Township facilities. The Authority issues bonds that are approved by the Township Board, and the legal liability for the Authority's debt remains with the Township. The Authority then leases the assets to the Township to finance the repayment of the bonds.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Public Safety Fund is used to account for a special tax millage levied by the Township for the operation of the police and fire departments.

The Township reports the following three major proprietary funds:

The Eastside Water Fund operates the Township's water distribution system.

The Sanitation Fund accounts for user charges and for operating expenses and debt service of the Township's sanitation department.

The Sewer Fund operates the Township's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Township's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Assets, Liabilities and Net Assets or Equity

a. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

All investments are stated at fair value.

b. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

b. Receivables and Payables

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. Taxes levied on December 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy.

The 2003 state taxable value for real/personal property of the Township totaled approximately \$288,248,000. The ad valorem taxes levied consisted of 4.4072, .4762 and 1.905 mills for the Township's general operating, street lighting and public safety purposes. These amounts are recognized in the respective General Fund, Street Lighting Fund, and Public Safety Fund, respectively.

c. Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

d. Restricted Assets

Certain cash and investments of the Economic Development Fund are held at Muskegon County where their use is restricted to certain construction activities. In addition, monies from debt issues in the Eastside Water and Sewer funds that are unspent are shown as restricted because their use is restricted to construction.

e. Capital Assets

Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

e. Capital Assets

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Eastside Water Fund during the year ended December 31, 2004 was \$219,553. The entire amount was included as part of the cost of capital assets under construction in connection with the expansion of the water system.

Property, plant and equipment is depreciated or amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	30-40
Utility systems	50
Land improvements	20-30
Furniture and equipment	5-10
Vehicles	5-10
Access rights	20

f. Compensated Absences

Township employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time during the anniversary year following the one in which it was earned. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 180 days for employees. One half of all unused accumulated sick leave is paid to employees who retire. All vacation and sick pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

g. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

h. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

i. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to December 1, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Prior to December 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level for the General Fund and the fund level for all other governmental funds. The Township Board made several supplemental budgetary appropriations throughout the year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2004, actual expenditures exceeded appropriations for the fire department in the General Fund by \$12,278. This overexpenditure was funded with available fund balance.

3. Fund Deficit

As of December 31, 2004, the Township's 2003 Paving Project Fund had an undesignated fund deficit of \$219,516. The deficit will be eliminated through the collection of special assessments.

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE C—DEPOSITS AND INVESTMENTS

1. Deposits

The Township's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of December 31, 2004, the Township's carrying amount of deposits was \$5,649,353, and the bank balance was \$6,097,460. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$5,997,460 was uninsured and uncollateralized.

2. Investments

As of December 31, 2004, the Township's investments represented holdings in certificates of deposit, U.S. Government agencies, investment pools and mutual funds. During the year ended December 31, 2004, the Township's investments were only in these types of investments.

The Township's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered, or the securities held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Township's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Township's name. The state-approved investment pools are not categorized as they are synonymous with mutual funds. As of December 31, 2004, the Township's fair value in those pools and mutual funds were \$9,617,459.

	<u>Category</u>			<u>Fair value amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Government agencies	\$ <u>1,180,206</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,180,206</u>

Below is a summary of the combined balance sheet deposits and investments:

	<u>Government activities</u>	<u>Business- type activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and investments	\$ 1,185,325	\$ 7,216,309	\$ 1,289,716	\$ 9,691,350
Restricted asset	<u>171,088</u>	<u>6,584,580</u>	<u>-</u>	<u>6,755,668</u>
Total deposits and investments	\$ <u>1,356,413</u>	\$ <u>13,800,889</u>	\$ <u>1,289,716</u>	\$ <u>16,447,018</u>

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE C—DEPOSITS AND INVESTMENTS—Continued

3. Restricted Assets

Restrictions are placed on assets by bond ordinance and Township Board action. At December 31, 2004, restricted cash and investments in the Township are restricted as follows:

Governmental activities

Economic Development Fund	
Construction	\$ <u>171,088</u>

Business-type activities

Sewer Fund	
Construction	\$ 5,000,000
Water Fund	
Construction	<u>1,584,580</u>
	<u>\$ 6,858,580</u>

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 381,599	\$ -	\$ -	\$ 381,599
Construction in progress	<u>11,077</u>	<u>419,430</u>	<u>-</u>	<u>430,507</u>
Total capital assets, not being depreciated	392,676	419,430	-	812,106
Capital assets, being depreciated:				
Land improvements	953,252	31,273	-	984,525
Buildings and improvements	2,686,401	16,015	84,170	2,618,246
Furniture and equipment	377,527	18,644	-	396,171
Vehicles	<u>2,011,905</u>	<u>44,159</u>	<u>20,809</u>	<u>2,035,255</u>
Total capital assets, being depreciated	6,029,085	110,091	104,979	6,034,197
Less accumulated depreciation for:				
Land improvements	431,872	29,142	-	461,014
Buildings and improvements	662,019	66,538	55,979	672,578
Furniture and equipment	250,859	27,860	-	278,719
Vehicles	<u>1,131,632</u>	<u>182,023</u>	<u>12,486</u>	<u>1,301,169</u>
Total accumulated depreciation	<u>2,476,382</u>	<u>305,563</u>	<u>68,465</u>	<u>2,713,480</u>
Total capital assets, being depreciated, net	<u>3,552,703</u>	<u>(195,472)</u>	<u>36,514</u>	<u>3,320,717</u>
Capital assets, net	<u>\$ 3,945,379</u>	<u>\$ 223,958</u>	<u>\$ 36,514</u>	<u>\$ 4,132,823</u>

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE D—CAPITAL ASSETS—Continued

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 15,966	\$ -	\$ -	\$ 15,966
Construction in progress	<u>213,925</u>	<u>4,210,410</u>	<u>25,652</u>	<u>4,398,683</u>
Total capital assets, not being depreciated	229,891	4,210,410	25,652	4,414,649
Capital assets, being depreciated:				
Plant and systems	20,232,950	173,064	-	20,406,014
Furniture and equipment	21,954	-	21,354	600
Vehicles	<u>542,472</u>	<u>-</u>	<u>-</u>	<u>542,472</u>
Total capital assets, being depreciated	20,797,376	173,064	21,354	20,949,086
Less accumulated depreciation:				
Plant and systems	7,219,887	407,608	-	7,627,495
Furniture and equipment	16,147	1,143	16,690	600
Vehicles	<u>376,867</u>	<u>61,427</u>	<u>-</u>	<u>438,294</u>
Total accumulated depreciation	<u>7,612,901</u>	<u>470,178</u>	<u>16,690</u>	<u>8,066,389</u>
Total capital assets, being depreciated, net	<u>13,184,475</u>	<u>(297,114)</u>	<u>4,664</u>	<u>12,882,697</u>
Capital assets, net	<u>\$13,414,366</u>	<u>\$ 3,913,296</u>	<u>\$ 30,316</u>	<u>\$17,297,346</u>
Government activities:				
Depreciation expense was charged to functions as follows:				
General government				\$ 32,523
Public safety				190,885
Public works				53,013
Culture and recreation				<u>29,142</u>
				<u>\$ 305,563</u>
Business-type activities:				
Depreciation expense was charged to functions as follows:				
Eastside water				\$ 42,243
Sanitation				62,570
Sewer				<u>365,365</u>
				<u>\$ 470,178</u>

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE D—CAPITAL ASSETS—Continued

Construction commitments:

At December 31, 2004, the Township had entered into various agreements for construction projects. Below is a summary of those agreements:

<u>Fund</u>	<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining</u>
Economic Development	Industrial park improvements	\$ 339,438	\$ 209,100
Eastside Water	Water system expansion	2,068,503	1,473,790
Sewer	Sewer system expansion	<u>1,113,048</u>	<u>2,387,518</u>
		<u>\$ 3,520,989</u>	<u>\$ 4,070,408</u>

NOTE E—ACCESS RIGHTS

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2004</u>
Sewer Fund				
Access rights (20 years)	\$ 1,712,919	\$ -	\$ -	\$ 1,712,919
Less accumulated amortization	<u>(1,328,048)</u>	<u>(96,217)</u>	<u>-</u>	<u>(1,424,265)</u>
Access rights, net of accumulated amortization	<u>\$ 384,871</u>	<u>\$ (96,217)</u>	<u>\$ -</u>	<u>\$ 288,654</u>

NOTE F—BOND ISSUANCE COSTS

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2004</u>
Water Fund				
Issuance costs (22 years)	\$ -	\$ 65,234	\$ -	\$ 65,234
Less accumulated amortization	<u>-</u>	<u>(1,993)</u>	<u>-</u>	<u>(1,993)</u>
Total bond issuance cost, net of accumulated amortization	<u>\$ -</u>	<u>\$ 63,241</u>	<u>\$ -</u>	<u>\$ 63,241</u>

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE G—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ 1,599,061	\$ 602,957
Special assessments not yet due	<u>500,569</u>	<u>-</u>
Total deferred/unearned revenue for governmental funds	\$ <u>2,099,630</u>	\$ <u>602,957</u>

NOTE H—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances, caused by normal operation, is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Public Safety Fund	\$ 759
General Fund	Nonmajor governmental funds	51,290
General Fund	Eastside Water Fund	75,000
General Fund	Sanitation Fund	43,267
General Fund	Sewer Fund	130,034
Public Safety Fund	General Fund	44,359
Nonmajor governmental funds	General Fund	15,090
Eastside Water Fund	Nonmajor governmental funds	71,200
Eastside Water Fund	Sewer Fund	49,790
Sanitation Department Fund	Sewer Fund	115
Sewer Fund	Nonmajor governmental funds	304,884
Sewer Fund	Eastside Water Fund	585,634
Sewer Fund	Sanitation Department Fund	<u>4,143</u>
		\$ <u>1,375,565</u>

Transfers in:

	<u>General Fund</u>	<u>Nonmajor governmental funds</u>	<u>Eastside Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	<u>Purpose</u>
Transfers out:						
General Fund	\$ -	\$15,000	\$ -	\$ -	\$ 15,000	Operations subsidy
Nonmajor governmental funds	<u>46,000</u>	<u>10,694</u>	<u>71,200</u>	<u>18,884</u>	<u>146,778</u>	Public safety and public works
Total	\$ <u>46,000</u>	\$ <u>25,694</u>	\$ <u>71,200</u>	\$ <u>18,884</u>	\$ <u>161,778</u>	

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE I—BOND ANTICIPATION NOTE

On December 20, 2004, Muskegon County issued a \$5,000,000 Bond Anticipation Note (interest at 2.50%) on behalf of the Township, due November 1, 2005. The Township expects to refinance this obligation prior to the November 1, 2005 due date. The proceeds of the note are restricted for improvements to the Township's sewer system. The note is secured with the full faith and credit of the Township.

NOTE J—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Township for the year ended December 31, 2004.

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004	Due within one year
Governmental activities:					
General obligation bonds	\$ 175,000	\$ -	\$ 30,000	\$ 145,000	\$ 35,000
Special assessment debt with Township commitment	<u>752,222</u>	<u>-</u>	<u>141,117</u>	<u>611,105</u>	<u>140,500</u>
Total bonds payable	927,222	-	171,117	756,105	175,500
Installment purchase agreements	450,000	-	110,000	340,000	110,000
Compensated absences	<u>270,399</u>	<u>17,636</u>	<u>-</u>	<u>288,035</u>	<u>140,561</u>
Governmental activity long-term liabilities	\$ <u>1,647,621</u>	\$ <u>17,636</u>	\$ <u>281,117</u>	\$ <u>1,384,140</u>	\$ <u>426,061</u>
Business-type activities:					
General obligation bonds	\$ -	\$ 7,000,000	\$ -	\$ 7,000,000	\$ -
Revenue bonds	<u>835,536</u>	<u>-</u>	<u>156,509</u>	<u>679,027</u>	<u>156,000</u>
Business-type activity long-term liability	\$ <u>835,536</u>	\$ <u>7,000,000</u>	\$ <u>156,509</u>	\$ <u>7,679,027</u>	\$ <u>156,000</u>

Governmental activities:

General obligation bonds:

\$380,000 Building Authority Bonds of 1993 due in annual installments of \$35,000 to \$40,000 through April 1, 2008; interest at rates varying from 5.40% to 5.70%

\$ 145,000

Special assessment debt with Township commitment:

\$307,006 Northside Water Special Assessment Bonds due in annual installments of \$2,100 to \$9,185 through July 1, 2015; interest at 8.00%

56,105

\$460,000 Special Assessment Bonds of 1996 due in annual installments of \$45,000 to \$50,000 through April 1, 2006; interest at rates varying from 5.55% to 5.65%

95,000

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE J—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance December 31, <u>2004</u>
Governmental activities—Continued	
Special assessment debt with Township commitment—Continued	
\$235,000 Special Assessment Bonds of 1998 due in annual installments of \$25,000 through February 1, 2008; interest at rates varying from 4.25% to 4.45%	\$ 100,000
\$203,000 Special Assessment Bonds of 2000 due in annual installments of \$20,000 to \$25,000 through February 1, 2010; interest at 5.20%	130,000
\$315,000 Special Assessment Bonds of 2001 due in annual installments of \$30,000 to \$35,000 through March 1, 2011; interest rates varying from at 3.60% to 4.50%	230,000
Installment purchase agreements:	
\$700,000 Fire Station Construction Contract of 1996 due in annual installments of \$70,000 through November 13, 2006; interest at 5.10%	140,000
\$400,000 Fire Truck Installment Purchase Agreement of 1999 due in annual installments of \$40,000 through April 1, 2009; interest at 4.25%	<u>200,000</u>
	1,096,105
Compensated absences	<u>288,035</u>
	<u>\$ 1,384,140</u>
Business-type activities:	
General obligation bonds:	
\$7,000,000 General Obligation Bonds of 2004 due in annual installments of \$250,000 to \$495,000 through November 1, 2005; interest at rates varying from 3.00% to 4.85%	\$ 7,000,000
Revenue bonds:	
\$1,135,750 Muskegon County Wastewater Management System - Number One Refunding Bond of 1996; final payment of \$139,714 due July 1, 2005; interest at 5.70%	139,714
\$577,304 Muskegon County Wastewater Management - Number One Refunding Bond of 2002 due in annual installments of \$16,518 to \$175,917 through July 2008; interest at rates varying from 2.25% to 5.00%	<u>539,313</u>
	<u>\$ 7,679,027</u>

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE J—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

The general obligation bonds are backed by the full faith and credit of the Township.

The 1996 and 2002 County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The Township has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 20 years. The contractual obligation is secured by the full faith and credit of the Township. Current debt service requirements are funded by sewer revenues.

The Northside Water System was constructed in 1982 in the Township and two other local units. The construction was funded with a \$1,100,000 Regional Water System Bond issued by the County of Muskegon. The County operates the system and makes payments on the bond with user charges. The Township has pledged its full faith and credit for its portion of the debt should user charges collected by the County be insufficient to make the debt payments. The Township's portion of the debt on December 31, 2004 was \$255,872. The Township is unaware of any circumstances that would cause a shortfall in the near future.

The Township was in compliance in all material respects with all the revenue bond ordinances at December 31, 2004.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2004 follows:

Year ending December 31, 2004	Governmental activities		Business-type activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 285,500	\$ 50,608	\$ 156,000	\$ 327,367
2006	282,703	36,610	426,149	319,227
2007	160,267	23,629	434,265	302,932
2008	165,267	15,790	437,613	286,418
2009	100,267	9,546	270,000	269,838
2010-2014	102,101	8,766	1,500,000	1,188,737
2015-2019	-	-	1,780,000	862,393
2020-2024	-	-	2,180,000	436,972
2025	-	-	495,000	24,008
Total	\$ <u>1,096,105</u>	\$ <u>144,949</u>	\$ <u>7,679,027</u>	\$ <u>4,017,892</u>

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE K—OTHER INFORMATION

1. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township manages its liability, property and insurance coverage as a member of the Michigan Township Participating Plan (MTPP), a public entity risk pool providing liability and property coverage to its participating members. The Township pays an annual premium to MTPP for its insurance coverage. The MTPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Township pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

2. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Township's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE L—RETIREMENT PLANS

1. Pension Plan

Plan Description. The Township is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Township. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon Charter Township
1990 E. Apple Avenue
Muskegon, MI 49442

Funding Policy. Township employees are required to contribute 3 to 5 percent to the Plan depending on employee contract. The Township is required to contribute at an actuarially-determined rate depending upon position from 10.47 to 12.85 percent of covered wages.

Annual Pension Cost. For the year ended December 31, 2004, the Township's annual pension cost was approximately \$284,000 which the Township contributed. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

<u>Year ending</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percent of APC contributed</u>	<u>Net Pension Obligation</u>
12/31/02	\$203,000	100%	\$ -
12/31/03	253,000	100	-
12/31/04	284,000	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollars amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/01	\$7,631	\$9,138	\$ 1,507	84%	\$ 2,227	68%
12/31/02	7,785	9,723	1,938	80	2,315	84
12/31/03	8,353	10,496	2,143	80	2,475	87

Muskegon Charter Township
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
December 31, 2004

NOTE L—RETIREMENT PLANS—Continued

2. Deferred Compensation Plan

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Township employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE M—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 42 percent of General Fund revenues.

NOTE N—SUBSEQUENT YEAR INFORMATION

Effective January 1, 2005, the wastewater service agreement between the County of Muskegon and thirteen local units, including Muskegon Charter Township, was amended to provide financial relief to the County's largest industrial user. Under terms of the amendment, the debt allocated to each local unit user will increase. The Sewer Fund's total debt obligation and annual payments on that obligation will increase by about 21 percent. The estimated financial impact on the Township in 2005 is \$29,000. These bonds will be fully retired in 2008. The estimated increase in future debt and interest payments for the Township until retirement is \$127,000. Additional County wastewater debt is paid by local unit users through user charges based on metered sewage flows. Payments on these issues will increase for all local units, including the Township. The estimated financial impact on the Township in 2005 is \$33,000.

REQUIRED SUPPLEMENTAL INFORMATION

Muskegon Charter Township
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended December 31, 2004

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,453,616	\$ 1,453,616	\$ 1,430,859	\$ (22,757)
Licenses and permits	367,900	378,000	378,601	601
Intergovernmental revenues				
Federal	-	35,200	35,100	(100)
State	1,839,800	1,839,800	1,690,725	(149,075)
Charges for services	239,103	244,885	310,610	65,725
Fines and forfeitures	46,500	51,860	46,659	(5,201)
Investment earnings	50,000	50,000	25,577	(24,423)
Other	58,200	74,000	52,226	(21,774)
Total revenues	4,055,119	4,127,361	3,970,357	(157,004)
EXPENDITURES				
Current				
General government				
Board of trustees	25,620	25,620	25,804	(184)
Supervisor	56,103	64,103	62,063	2,040
Elections	24,500	27,100	21,375	5,725
Financial administration	172,138	217,148	190,358	26,790
Clerk	192,926	196,226	188,137	8,089
Treasurer	130,612	132,372	129,557	2,815
Township hall	83,650	87,150	68,169	18,981
Board of appeals	1,700	1,700	180	1,520
Public safety				
Police department	905,469	913,060	884,446	28,614
Fire department	620,250	721,350	733,628	(12,278)
Inspection department	230,572	248,998	231,348	17,650
Public works				
Highways and streets	385,439	387,139	353,039	34,100
Leaf collection	15,500	17,700	16,199	1,501
Community and economic development				
Planning	40,000	42,000	20,873	21,127
Culture and recreation				
Parks and recreation	161,875	133,375	116,311	17,064
Other governmental functions				
Insurance	802,000	805,400	748,185	57,215
Payroll benefits	601,600	602,200	481,963	120,237
Other	59,850	63,350	49,691	13,659
Capital outlay	10,000	66,715	65,932	783
Debt service				
Principal	30,000	30,000	30,000	-
Interest and fees	8,851	8,851	8,850	1
Total expenditures	4,558,655	4,791,557	4,426,108	365,449
Excess (deficiency) of revenues over expenditures	(503,536)	(664,196)	(455,751)	208,445
OTHER FINANCING SOURCES (USES)				
Transfers in	-	41,000	46,000	5,000
Proceeds from sale of fixed assets	8,000	122,200	383,180	260,980
Transfers out	(20,000)	(20,000)	(15,000)	5,000
Total other financing sources and uses	(12,000)	143,200	414,180	270,980
Net change in fund balance	\$ (515,536)	\$ (520,996)	(41,571)	\$ 479,425
Fund balance at January 1, 2004			829,436	
Fund balance at December 31, 2004			\$ 787,865	

Muskegon Charter Township
BUDGETARY COMPARISON SCHEDULE
 Public Safety Fund
 For the year ended December 31, 2004

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 570,542	\$ 570,542	\$ 565,611	\$ (4,931)
Investment earnings	1,000	1,000	450	(550)
Other	13,400	15,800	69,552	53,752
Total revenues	584,942	587,342	635,613	48,271
EXPENDITURES				
Current				
Public safety	446,686	483,989	448,091	35,898
Debt service				
Principal	70,000	70,000	70,000	-
Interest and fees	10,710	10,710	10,998	(288)
Capital outlay	44,159	44,159	44,159	-
Total expenditures	571,555	608,858	573,248	35,610
Net change in fund balance	\$ 13,387	\$ (21,516)	62,365	\$ 83,881
Fund balance at January 1, 2004			1,184	
Fund balance at December 31, 2004			\$ 63,549	

OTHER SUPPLEMENTAL INFORMATION

Muskegon Charter Township
BALANCE SHEET
Other Governmental Funds
December 31, 2004

				Special Revenue Funds				Capital Projects Fund		Debt Service Funds			
	Total other governmental funds	Fire Equipment	Street Lighting	Northside Water System	Economic Development	Northside Water System II	Southside Water System	2003 Paving Project	1996 Paving Project	1998 Paving Project	2000 Paving Project	2001 Paving Project	
ASSETS													
Cash and investments	\$ 794,099	\$ 92,697	\$ 40,029	\$ 178,209	\$ 155	\$ 163,906	\$ 16,196	\$ 43,053	\$ 68,086	\$ 64,563	\$ 66,076	\$ 61,129	
Receivables													
Special assessments	573,982	-	-	-	-	88,960	-	189,033	27,618	44,596	66,389	157,386	
Property taxes	234,711	-	102,888	131,823	-	-	-	-	-	-	-	-	
Due from other funds	15,090	-	15,000	-	-	90	-	-	-	-	-	-	
Due from other governmental units	275,218	16,914	-	-	258,304	-	-	-	-	-	-	-	
Restricted assets	171,088	-	-	-	171,088	-	-	-	-	-	-	-	
Total assets	<u>\$ 2,064,188</u>	<u>\$ 109,611</u>	<u>\$ 157,917</u>	<u>\$ 310,032</u>	<u>\$ 429,547</u>	<u>\$ 252,956</u>	<u>\$ 16,196</u>	<u>\$ 232,086</u>	<u>\$ 95,704</u>	<u>\$ 109,159</u>	<u>\$ 132,465</u>	<u>\$ 218,515</u>	
LIABILITIES AND FUND BALANCES (DEFICITS)													
Liabilities													
Accounts payable	\$ 218,400	\$ -	\$ 13,116	\$ -	\$ 205,284	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Due to other funds	427,374	46,000	-	76,490	-	18,884	-	286,000	-	-	-	-	
Deferred revenue	<u>822,161</u>	<u>-</u>	<u>141,805</u>	<u>179,787</u>	<u>-</u>	<u>77,579</u>	<u>-</u>	<u>165,602</u>	<u>17,935</u>	<u>34,846</u>	<u>57,628</u>	<u>146,979</u>	
Total liabilities	1,467,935	46,000	154,921	256,277	205,284	96,463	-	451,602	17,935	34,846	57,628	146,979	
Fund balances (deficits)													
Reserved for:													
Debt service	298,455	-	-	-	-	-	-	-	77,769	74,313	74,837	71,536	
Capital projects	171,088	-	-	-	171,088	-	-	-	-	-	-	-	
Unreserved													
Undesignated	<u>126,710</u>	<u>63,611</u>	<u>2,996</u>	<u>53,755</u>	<u>53,175</u>	<u>156,493</u>	<u>16,196</u>	<u>(219,516)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total fund balances (deficits)	<u>596,253</u>	<u>63,611</u>	<u>2,996</u>	<u>53,755</u>	<u>224,263</u>	<u>156,493</u>	<u>16,196</u>	<u>(219,516)</u>	<u>77,769</u>	<u>74,313</u>	<u>74,837</u>	<u>71,536</u>	
Total liabilities and fund balances (deficits)	<u>\$ 2,064,188</u>	<u>\$ 109,611</u>	<u>\$ 157,917</u>	<u>\$ 310,032</u>	<u>\$ 429,547</u>	<u>\$ 252,956</u>	<u>\$ 16,196</u>	<u>\$ 232,086</u>	<u>\$ 95,704</u>	<u>\$ 109,159</u>	<u>\$ 132,465</u>	<u>\$ 218,515</u>	

Muskegon Charter Township
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
Other Governmental Funds
For the year ended December 31, 2004

		Special Revenue Funds						Capital Projects Fund	Debt Service Funds			
	Total other governmental funds	Fire Equipment	Street Lighting	Northside Water System	Economic Development	Northside Water System II	Southside Water System	2003 Paving Project	1996 Paving Project	1998 Paving Project	2000 Paving Project	2001 Paving Project
REVENUES												
Property taxes	\$ 141,151	\$ -	\$ 141,151	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues - federal	258,304	-	-	-	258,304	-	-	-	-	-	-	-
Charges for services	293,877	146,425	-	147,317	-	135	-	-	-	-	-	-
Investment earnings	11,902	343	343	633	7,643	802	100	450	452	445	420	271
Other	148,650	2,135	-	-	-	28,565	5,000	7,274	21,206	19,164	23,868	41,438
Total revenues	853,884	148,903	141,494	147,950	265,947	29,502	5,100	7,724	21,658	19,609	24,288	41,709
EXPENDITURES												
Current												
Public works	191,395	-	156,359	-	-	-	122	34,914	-	-	-	-
Other governmental functions	34,116	1,208	-	31,690	418	-	-	-	400	400	-	-
Debt service												
Principal	181,117	40,000	-	-	-	11,117	-	-	50,000	25,000	20,000	35,000
Interest and fees	42,575	10,167	-	-	-	3,611	-	-	6,680	4,875	7,283	9,959
Capital outlay	419,430	-	-	-	419,430	-	-	-	-	-	-	-
Total expenditures	868,633	51,375	156,359	31,690	419,848	14,728	122	34,914	57,080	30,275	27,283	44,959
Excess of revenues over (under) expenditures	(14,749)	97,528	(14,865)	116,260	(153,901)	14,774	4,978	(27,190)	(35,422)	(10,666)	(2,995)	(3,250)
OTHER FINANCING SOURCES (USES)												
Transfers in	25,694	-	15,000	-	-	-	-	-	2,659	-	3,348	4,687
Transfers out	(146,778)	(46,000)	-	(71,200)	-	(18,884)	-	(10,694)	-	-	-	-
Total other financing sources (uses)	(121,084)	(46,000)	15,000	(71,200)	-	(18,884)	-	(10,694)	2,659	-	3,348	4,687
Net change in fund balances (deficits)	(135,833)	51,528	135	45,060	(153,901)	(4,110)	4,978	(37,884)	(32,763)	(10,666)	353	1,437
Fund balances (deficits) at January 1, 2004	732,086	12,083	2,861	8,695	378,164	160,603	11,218	(181,632)	110,532	84,979	74,484	70,099
Fund balances (deficits) at December 31, 2004	\$ 596,253	\$ 63,611	\$ 2,996	\$ 53,755	\$ 224,263	\$ 156,493	\$ 16,196	\$ (219,516)	\$ 77,769	\$ 74,313	\$ 74,837	\$ 71,536

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

June 15, 2005

Township Board
Muskegon Charter Township
Muskegon, Michigan

In planning and performing our audit of the financial statements of Muskegon Charter Township for the year ended December 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Muskegon Charter Township's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the Township Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REPORTABLE CONDITIONS

General

Recommendation 1: All journal entries should have adequate supporting documentation and should have documented approval by an appropriate Township official.

During our audit testing, we noted that supporting documentation and documented proper approval of journal entries did not exist for all journal entries.

The maintenance of files with supporting documentation and documented approval of all journal entries would ensure that appropriate documentation would be available for review on request.

Recommendation 2: Separate cash drawers should be maintained for both cash receipt clerks.

During our audit testing, we noted that both Township clerks that accept receipts use the same cash drawer.

Keeping separate cash drawers for both clerks would enable the Township to better track receipts and reduce the possibility of defalcations.